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15 March 1956

CURRENT INTELLIGENCE WEEKLY SUMMARY

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

ARAB-ISRAELI SITUATION Page 1

There has been no letup in the number of incidents on the borders between Israel and the Arab states and in military preparations. Conditions continue to be such that a minor incident could expand into major hostilities.

[REDACTED]

CYPRUS Page 2

The storm aroused over the British deportation of Archbishop Makarios on 9 March has severely strained the relations between Greece and its Western allies. Prime Minister Karamanlis, who is trying to build popular support for his regime, is determined to follow an uncompromising line on the Cyprus question. London and Ankara have demonstrated no willingness to compromise concerning Cyprus.

[REDACTED]

FRENCH NORTH AFRICA Page 3

The French National Assembly's endorsement of Premier Mollet's Algerian policy--strong military action against the rebels combined with long-term economic and social projects--is unlikely to check the growing conviction among Algerian Moslems that it might be possible to oust the French and take control. In Morocco, the sultan, despite French pressure, has failed to call for the surrender of the Berber rebels in the Rif area. As in Algeria, increasing numbers of native troops are deserting from the French army. In Tunis, the local government is using the failure of the French-controlled police to prevent the 9 March attack on the American consulate as a lever to gain control over Tunisian internal security.

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SOVIET CONCILIATORY GESTURES TOWARD FRANCE

Page 5

The Soviet Union is showing a new interest in exploiting differences between France and its Western allies and is encouraging France to play a more independent role in international affairs. This interest has been evident in recent Soviet statements on disarmament, Moscow's reaction to Foreign Minister Pineau's speech of 2 March, Communist support of the French government on the Algerian question, and the invitation to French government leaders to visit the Soviet capital. Soviet spokesmen have described France as the key to a further relaxation of international tension. [REDACTED]

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THE LONDON DISARMAMENT TALKS

Page 6

London and Paris are prepared to use their joint disarmament plan--incorporating both Soviet and Western views--as a basis for negotiations with the USSR at the UN Disarmament Subcommittee talks opening in London on 19 March. The British-French plan is based on proposals drawn up by French delegate Jules Moch. The USSR will try in the discussions to disrupt the Western front on disarmament and to lure the French delegate into further concessions to Soviet views. [REDACTED]

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PART II

NOTES AND COMMENTS

Jordan: Jordan's King Hussain is attempting to use the popularity he gained from the dismissal of Britain's General Glubb to maintain a neutral position between Iraq on the one hand and Egypt, Syria, and Saudi Arabia on the other. Hussain has not yet accepted the Egyptian-Syrian-Saudi offer of financial assistance to replace the British subsidy, but the probable growth in influence of the "Free Officers Movement" in the Arab Legion is likely to push him in the direction of the Arab group. [REDACTED]

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Soviet Leaders Discuss Collective Leadership: Soviet leaders, having disavowed Stalin-type rule and the cult of personality, now seem eager to explain to outsiders how the current collective dictatorship contrasts with the tyranny of one-man rule. In conversations with Ambassador Bohlen at a reception on 6 March, the top leaders claimed that it was "absolute nonsense" that Khrushchev was on his way to becoming a "great leader" like Stalin, and that decisions in the party presidium are taken by vote in the event of disagreement. [REDACTED]

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Revision of Stalinist History Gets Off to Fast Start: The Soviet press has wasted no time in launching the revision of the history of the Stalinist period touched off by the 20th Party Congress. The program, which is designed to justify the destruction of the Stalin myth, has begun with the return to honor of a number of Old Bolshevik victims of Stalin's purges.

[REDACTED]

Page 4

New Soviet Agriculture Decree Curtails Private Ownership:

A new Soviet agricultural decree of 9 March opens a campaign to end the 20-year compromise between the Communist Party and the Soviet peasant. In the coming months, the party plans to move as fast and as far as possible toward complete elimination of the private plot and personal livestock holdings. The terms of the decree, however, leave the way open for a retreat from advanced positions if the drive provokes serious popular resistance.

[REDACTED]

Page 5

Communist China's Economic Dependence on the USSR: The composition and origin of Communist China's imports during its First Five-Year Plan (1953-1957) bear out Khrushchev's 14 February speech to the 20th Party Congress on the nature and magnitude of Soviet aid to Communist China. These imports indicate China's dependence on the bloc, particularly for military and key industrial equipment. [REDACTED]

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Okinawan Election: The decisive victory scored by the conservative and pro-American Ryukyu Democratic Party (RDP) in the Okinawan election held on 11 March suggests that sentiment for reversion to Japan is not as strong as the Japanese and some Okinawans have claimed. [REDACTED]

Page 9

Laos: Premier Katay having failed to form a government in Laos, Souvanna Phouma, a former premier and defense minister in the Katay government which resigned on 14 February, has again been called on to attempt the formation of a new cabinet. The activities of Bong Souvannouvong, an opposition leader and minority deputy who is sympathetic to the Pathet Lao, tend to stimulate neutralism in Laos, and frustration among the deputies over the unresolved Pathet Lao situation is reaching a point where overtures from the Communists to arrange a settlement might appear attractive.

[REDACTED]

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Cambodia: Overtures by Communist China and the USSR to establish, respectively, economic and diplomatic ties with Cambodia are part of an intensified Communist effort to disrupt Cambodia's relations with the West, particularly the United States. The precarious balance of Cambodia's foreign policy--based on strict neutrality--is revealed in Premier Sihanouk's recent statement that "our policy will essentially adopt itself to circumstances and world developments and to positions taken toward us by various powers."

[REDACTED]

Page 10

Spain's Position on Moroccan Independence: The Spanish Foreign Ministry has affirmed Spain's willingness to meet Moroccan nationalist demands for independence. This constitutes no more than an effort to maintain maximum influence in Spain's own zone and the good will of the Arab states in general and not a change in policy toward Spanish Morocco. Spain may be counting on a breakdown in French-Moroccan negotiations so that it can evade its own rather vague promises toward Spanish Morocco. [REDACTED]

Page 11

Denmark's Agreements With the USSR: Danish prime minister Hansen, during his visit to Moscow, announced that Denmark would build two freighters for the USSR under a trade agreement to be negotiated in April. The two countries also are to expand their cultural contacts. [REDACTED]

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PART III

PATTERNS AND PERSPECTIVES

COMMUNIST CHINA'S ECONOMIC OFFENSIVE IN SOUTH ASIA . . .

Page 1

As part of the general Communist economic offensive in Asia, Communist China is offering to buy agricultural surpluses at premium prices and is making available a wide range of manufactured products at low cost. Peiping is thus trying to impress Asians with the speed of Communist China's industrialization and to encourage neutralism through increased trade. These economic

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activities, which are more modest than the Soviet campaign in the area, complement rather than compete with Soviet activities, and the over-all Communist effort appears to be well co-ordinated. [REDACTED]

25X1 THE FRENCH ECONOMIC SITUATION Page 3

At a time when the French position in North Africa is under severe attack, France is entering its third year of unprecedented prosperity. Serious basic weaknesses remain uncorrected, however, and the business community is nervous about a Socialist-led government's economic policies. Premier Mollet's proposals for dealing with the Algerian problem involve vast new expenditures which may set inflation in motion again and arrest expansion of the economy. [REDACTED]

25X1 WEST GERMAN ATTITUDES ON ALLIED MILITARY SUPPORT COSTS . Page 6

The West German cabinet is apparently unanimous in its determination to discontinue direct cash payments for the support of NATO-committed troops stationed in West Germany after the present special agreement expires on 5 May. The cabinet appears divided over the scope and form of alternative arrangements. [REDACTED]

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ROLE OF SOVIET NAVY MAY BE UNDERGOING RE-EVALUATION . . Page 3

Soviet leaders may be engaged in re-evaluating the role of the Soviet navy in the light of its suitability for modern combat. Khrushchev said to the British ambassador in Moscow on 6 March that Soviet ships are "obsolete" and unsuited for modern war conditions. The navy commander in chief responsible for the postwar build-up apparently has been replaced, and the Communist Party central committee now includes only one naval officer, a candidate member, whereas in the previous committee one full member and three candidates were naval officers. A re-evaluation of the navy's role might result in the curtailment of the naval program or its being redirected toward producing ships of more advanced design. [REDACTED]

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DEVELOPMENT OF SOVIET ELECTRIC POWER Page 10

Electric power development under the USSR's draft Sixth Five-Year Plan is geared to a new 15-20 year electrification program. Calling for a rate of expansion a little higher than that achieved under the last five-year plan, the new plan requires twice the absolute increase achieved in 1951-55. It will probably be fulfilled for power production but not for installed capacity. The 15-20 year program emphasizes large individual projects, useful also for propaganda purposes, including at least four hydroelectric stations bigger than any now in existence and the world's longest and highest-voltage transmission system.

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PART I

OF IMMEDIATE INTEREST

ARAB-ISRAELI SITUATION

There has been no letup in the number of incidents on the borders between Israel and the Arab states and in

military preparations. Conditions continue to be such that a minor incident could expand into major hostilities.

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The communiqué issued by the heads of state of Egypt, Syria and Saudi Arabia following their meeting in Cairo from 6 to 11 March contained no indication that the Arabs are prepared to compromise on any issue. There appears to be a fairly widely held feeling among the Arabs that Israel will be restrained by Western policy. This belief reportedly is held by such different elements as Nasr and Palestinian refugees in West Jordan.

No such sentiment regarding the Arabs appears to exist in Israel, where large-scale civil defense exercises have been held and where government leaders donated a day's work to the digging of trenches and fortifications. The Israeli government in its domestic press announcements seems to be trying to keep a balance between alarming statements of Arab strength and border activities and expressions of confidence that Israel can repel an Arab attack, but privately

Israeli leaders continue to hammer on the single theme that Arab aggression is inevitable and that their failure to obtain arms from the West encourages Arab belligerence.

The views each side holds regarding the other have the effect of causing both to stand pat. General Burns' admitted failure to get either Egypt or Israel to make any significant move toward easing even local border situations is an illustration of this attitude, as is the manifest reluctance of Arab leaders to resume discussion of the Johnston plan for Jordan River development. On the Jordan issue, the Israelis also have repeated that time is running out, and that they definitely will not delay another work season before going ahead with their own water diversion projects. Given present attitudes, a new period of intensified crisis is probably coming up about the middle of April, if not earlier. 25X1

CYPRUS

The storm aroused over the British deportation of Archbishop Makarios on 9 March has severely strained the relations between Greece and its Western allies. Prime Minister Karamanlis, who is trying to build popular support for his regime, is determined to follow an uncompromising line on the Cyprus

question. London and especially Ankara have demonstrated equal unwillingness to compromise concerning Cyprus.

Athens has launched a diplomatic campaign aimed at compelling London to reconsider its

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Cyprus policy and has appealed to the United States, the United Nations, and international Christian leaders.

Greek forces may not take part in the approaching combined NATO exercises. Karamanlis is unlikely to risk the downfall of his government by taking any step which might alienate Greek public opinion.

The Balkan alliance appears to be in suspense and the gradual improvement of relations between Greece and Turkey is now sharply reversed. The Turks continue to regard resumption of friendship with Greece as possible only if Athens abandons its Cyprus claims, while the Greeks

in turn recently told the Turks that they must recognize the principle of self-determination as prerequisite to the re-establishment of friendly relations.

The tension in relations between Greece and Britain and Turkey may cause new violence at any time. Any Greek attacks on Turks or their property in Greece or on Cyprus would probably bring swift and violent retaliation. Communist agitators may be expected to exploit any outbreaks in the hope of making the breach irreparable. The British removal of Cypriot nationalist leadership gives local Communists a chance to gain control of the resistance movement on Cyprus.

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FRENCH NORTH AFRICA

Algeria

The French National Assembly's endorsement of Premier Mollet's Algerian policy--strong military action against the rebels, combined with long-term economic and social projects--is unlikely to check the growing conviction among Algerian Moslems that it might be possible to oust the French and take control.

An increasing number of Algerian troops are deserting from the French army to join the rebels.

A nationalist uprising in the city of Algiers, and possibly also in Constantine, Bone, and Bougie, is considered imminent.

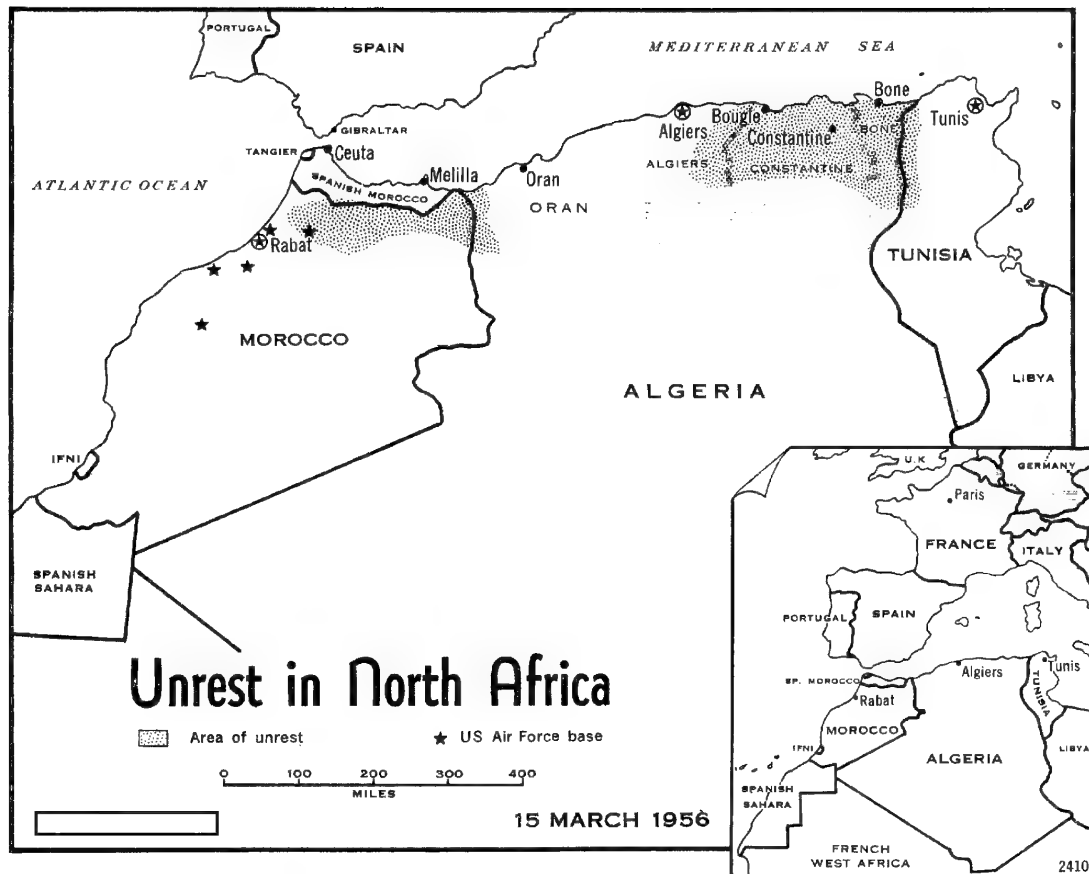
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Moslems in Algiers turned on Europeans for the first time on 11 March, and serious clashes between

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Moslems and Christians are now considered a distinct possibility. In addition, recent incidents in Oran indicate the insecurity of a city heretofore largely untouched by terrorism.

The Algerian press, which is controlled almost exclusively by French settler extremists, is aggravating an already tense situation, while paramilitary groups of settler reservists are intensifying their activities. The settlers are not likely to co-operate with Paris by restraining extremists in their midst.

Morocco

Sultan Mohamed V, who returned to Rabat on 5 March after

completing the first phase of Moroccan negotiations with France, on 7 March made a general appeal for order similar to previous appeals he has made. Despite French hopes, however, he again failed to call for a surrender of the Berber tribes which have been in rebellion since last October in the Rif area of northeastern Morocco.

French officials in Rabat are concerned over the deteriorating situation in the Rif as well as with the accelerating rate of desertions of Moroccan troops from the French army. While they probably will continue to press the sultan for a surrender call, he is unlikely to risk his personal prestige until the groundwork can be laid by nationalist leaders for a cease-fire.

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Top nationalist leaders now in Madrid to confer with Allal el-Fassi, who has remained in self-imposed exile, probably are reviewing their policy toward the rebellion in the Rif. They may also be establishing a policy toward Spain, whose contradictory activities in Spanish Morocco have caused considerable tension among the Moroccans. (See Part II, p.13.)

Tunisia

The Tunisian government is exploiting the political gains from the 9 March sacking of the American consulate general and information center in Tunis by a mob of young French settlers.

The Tunisians are using the failure of the French-controlled police to prevent the attack as a lever to gain control over Tunisian internal security. Tunisian insistence on this issue may complicate the current French-Tunisian negotiations in Paris. These negotiations are expected to provide Tunisia with at least a token army and some diplomatic representation. A declaration including a promise of independence such as has been won by the Moroccans and which has become the most immediate goal of Tunisian nationalists may be issued shortly.

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SOVIET CONCILIATORY GESTURES
TOWARD FRANCE

The Soviet Union is showing a new interest in exploiting growing differences between France and its Western allies and encouraging France to play a more independent role in international affairs.

This interest has been evident in recent Soviet statements on disarmament, Moscow's reaction to Foreign Minister Pineau's speech of 2 March, and Communist support of the French government on the Algerian question. The attention given ex-president Auriol during his visit in Moscow and the invitations to Pineau, Premier Mollet, and other leading French figures to visit the Soviet capital are also part of this effort. One motive for the French Communist Party's support of the Mollet government may be to keep it in power for this latter visit.

The immediate purpose of these Soviet moves appears to be to encourage the French to take a position independent of the other Western powers in the disarmament talks starting in London on 19 March. Press reports on former president Auriol's talks with Soviet leaders have quoted them as encouraging French efforts to act as an intermediary between East and West on disarmament. (Also see Part I, p.6.)

Molotov's speech to the Soviet 20th Party Congress noted that France had shown a special interest in disarmament and promised that the USSR would work with France on this problem, while Khrushchev's speech included in a list of interim disarmament steps the budget reductions which France proposed at the summit conference.

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Moscow welcomed the suggestions in Pineau's speech of 2 March that German unity should be considered only within the framework of a disarmament agreement. Soviet propaganda reaction to Pineau's speech has exaggerated his criticisms of the West and has claimed it indicated the French government's recognition of a "broad public movement in the country demanding a new foreign policy." Soviet spokesmen have described France as the key to a further relaxation in international tension.

The Soviet Union is probably behind the shift in the French Communist line on Algeria, which led to Communist support of Mollet in the French National Assembly on the 12 March votes of confidence. Communist propaganda, siding with popular sentiment in France for French-Algerian interdependence, has played down the French Communists' ultimate objective of independence for Algeria and has stressed their areas of agreement with Mollet's policy. By supporting the Socialist-led government, the Communists preserve the illusion of a de facto popular front in France.

That this tactic serves a broader Soviet purpose was indicated by Soviet ambassador Vinogradov's recent statement to a French official that the USSR supports continued French presence in North Africa. This

recalls the statement in October of a Soviet official, who was suggesting talks with France in Moscow on North Africa, that the USSR wanted the French to remain in North Africa because it discovered in Indochina that if the French moved out, the Americans would move in.

The Soviet leaders are aware that French sensitivity on the North African question is causing French antagonism toward the United States, and they recall that the Soviet vote in the UN on Algeria last fall provoked Premier Faure to cancel his scheduled visit to Moscow. The USSR is attempting to avoid antagonizing France and perhaps to create the impression that it is more sympathetic than the United States and Britain toward France's problems in North Africa.

There is also growing evidence that Moscow is now taking more seriously its cultural exchange program with France. Instead of inviting only the usual fellow travelers to visit the USSR, Moscow is now issuing invitations primarily to important scholars, rising young politicians, and conservative business leaders who are not friendly to Communism. Ambassador Vinogradov is trying to get prominent writers to visit Moscow and Leningrad and meet Soviet leaders in their fields. French officials are concerned that such guided tours may leave French intellectual leaders favorably impressed with the USSR.

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THE LONDON DISARMAMENT TALKS

London and Paris are prepared to use their joint disarmament plan as a basis for negotiations with the USSR at the UN Disarmament Subcommittee

talks opening in London on 19 March. The British-French negotiating paper, which is said to incorporate both the East's and West's views on disarmament, is

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based on proposals drawn up by the French delegate, Jules Moch. The USSR will try in the discussions to disrupt the Western front on disarmament and to lure Moch, who tends to play the role of mediator, into further concessions to Soviet views.

The British French plan provides for conventional and nuclear disarmament in three stages and incorporates President Eisenhower's proposal for the exchange of military blueprints, Premier Bulganin's plan for establishing control posts at key transportation centers, and former premier Faure's proposal to allocate savings from reduced military expenditures to improving standards of living. Principal points of divergence from American views are the implied provision for a ceiling of 1,500,000 on conventional forces, the prohibition of nuclear weapons testing, and the unconditional prohibition of use of nuclear weapons.

British working-level delegates have expressed the opinion that if London failed to join the French in presenting the synthesized proposal, some degree of French-Soviet rapprochement might result, to the detriment of the subcommittee talks and the solidarity of NATO. The British also believe that any disarmament proposal must be not merely "a set of principles," but must provide for a series of definite steps with fairly precise time relationships. They presumably believe that the present proposal meets these requirements.

The strengthening of Moch's hand in the disarmament negotiations was emphasized by his speech of 2 March to the Socialist International council. He criticized the "open skies" proposal as "control without disarmament" and similarly rejected plans for disarmament without effective controls. He characterized his own plan as encompassing "progressively all the disarmament which is at present controllable." He expected the French government to maintain this position even if it meant isolation from the other Western powers during the subcommittee talks.

Canada, the other Western member of the subcommittee, will not co-sponsor the British-French proposal unless the United States does. However, Canadian working-level delegates would prefer a comprehensive proposal along the lines of the British-French plan in order to take into account the increasing public interest in disarmament.

Moscow's first authoritative comment on the subcommittee talks, published in Pravda on 9 March, provided further evidence that the Soviet representative in London will be particularly alert to exploit any cleavages which may develop between the French delegate and his Western colleagues. Pravda stated that the Mollet government's "new disarmament plan" had aroused "open discontent" in the United States and charged that the consultations among the four Western powers prior to the opening of the subcommittee talks were partly aimed at "curbing

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France and depriving her of the possibility of displaying her initiative."

Pravda implied that French delegate Moch, under pressure from his Western colleagues, would abandon the joint British-French plan, and support the American plan "disguised

as a united plan of the West." The article reported the main points of President Eisenhower's letter of 1 March to Premier Bulganin on disarmament without independent comment and predicted that the Western position will "throw the subcommittee...a long distance back." 25X1

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PART II

NOTES AND COMMENTS

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Jordan

Jordan's King Hussain is attempting to use the popularity he gained from the dismissal of Britain's General Glubb as commander of the Arab Legion to maintain a neutral position between Iraq on the one hand and Egypt, Syria, and Saudi Arabia on the other. Hussain has not yet accepted the Egyptian-Syrian-Saudi offer of financial assistance to replace the British subsidy, but the probable growth in influence of the "Free Officers Movement" in the Arab Legion is likely to push him in the direction of the Arab group.

In dismissing Glubb and replacing other British officers of the Legion with Arabs, the king appears to have been trying desperately to recoup the loss of prestige he and his government suffered as a result of the two series of riots last December and January. Hussain probably has gained only a temporary respite, however, since in reducing British influence he has opened the way to other influences, domestic and foreign, which in the longer run may overthrow the monarchy.

The Jordanian government, meanwhile, appears to be trying to buy time. Hussain did not attend the recent Arab "summit" meeting in Cairo, and the Jordanians still hold to the line that they will accept Arab aid if it is offered by all the Arab states, including Iraq, and if it is regarded as a supplement to rather than a substitute for British assistance.

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Jordan has taken great pains to reassure Britain and the United States that the relief of British officers does not imply a break with the West in general or with Britain in particular.

London is apparently taking seriously King Hussain's expressed desire to maintain close and friendly relations, and is considering measures that would presumably enable Britain to retain a special position in Jordan. According to plans under study at the War Office, Britain would continue to furnish officers as advisers to the Arab Legion. London has agreed to replace the officers asked to be withdrawn, and Prime Minister Eden has also said he might be willing to allow a British officer to become second in command of the Legion.

Britain apparently will continue its subsidy to Jordan if adequate controls over its expenditure can be devised, probably in the form of an Anglo-Jordanian financial audit. Finally, Britain will probably insist on an annex to the Anglo-Jordanian treaty, releasing it from its commitment if Jordan should engage in military adventures.

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Soviet Leaders Discuss Collective Leadership

The Soviet leaders, having disavowed Stalin-type rule and the cult of personality, now seem eager to explain to outsiders how the current collective leadership contrasts with the tyranny of one-man rule. In conversations with Ambassador Bohlen at a reception for the Danish prime minister on 6 March, the USSR's top leaders gave the best explanation to date on how collective leadership actually operates within the top echelons of the Soviet hierarchy.

Khrushchev, Bulganin, Mikoyan, Malenkov, and Molotov in separate conversations all emphasized to Bohlen that under present conditions in the Soviet Union, collective leadership is the only form of rule possible. Khrushchev termed "absolute nonsense" any thought that he was on the way to becoming another "great leader" like Stalin, and Mikoyan later made a similar statement about Khrushchev's position.

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As if to reinforce these words, Soviet leaders at all social gatherings have been displaying a lack of deference for Khrushchev and an easy comradeship with one another that would have been unthinkable in the Stalin era. For example, when at one point during the 6 March reception Bohlen mentioned to Bulganin and Molotov that he had seen a film of the Soviet leaders' trip to India in which there was a very interesting picture of Khrushchev getting on an elephant, Molotov gleefully quipped, "Yes, an elephant getting on an elephant!"

At one point in a conversation with Khrushchev and Malenkov, the subject of the latter's resignation as chairman of the Council of Ministers came up. On this question the party line was rather closely adhered to, with Malenkov claiming that after he had been designated to head the group at the time of Stalin's death it was found that he did not have enough "experience."

Both Khrushchev and Malenkov vigorously denied that there had been any "quarrel" between them on economic policy, although Khrushchev admitted that certain adjustments in economic policy had been necessary, partly because the Soviet leadership came to realize that disarmament was not an immediate prospect. Khrushchev added that "Georgi Maximilianovich (Malenkov) is one of my closest friends," but Bohlen felt that, of all the topics discussed, the statements on this subject were the least frank.

In discussing the workings of the top party organizations,

Molotov and Khrushchev individually explained that decisions in the party presidium are now usually reached after discussion without a vote, but that in the event of disagreement, a vote is taken and minority or even individual views are made a part of the record. Both leaders were emphatic on this subject, and Khrushchev said that in the event of disagreement which cannot be ironed out in discussion, a vote is "obligatory."

The leaders stated that the party secretariat, headed by Khrushchev as first secretary, is subordinate to the presidium during periods between meetings of the central committee and that the secretariat has no independent status of its own. The newly created Central Committee Bureau for the Russian Republic, also headed by Khrushchev, is also completely subordinate to the presidium. It was also revealed that candidates to the party presidium have the right to attend regular sessions of the presidium but do not do so in all cases. They have the right to participate in discussions but not to vote.

Mikoyan contrasted these present practices with Stalin's later days, which he described as "difficult times," and bitterly condemned Stalin for frequently making decisions on his own without consultation "with any of us." He said that by this procedure Stalin had destroyed the principle of voting in party organs and in effect had destroyed their usefulness.

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Revision of Stalinist History
Gets Off to Fast Start

The Soviet press has wasted no time in launching the revision of the history of the Stalinist period touched off by the 20th Party Congress. A rapidly developing program designed to justify the destruction of the Stalin myth and to create a historical perspective more in harmony with the general lines of Soviet policy has been set in motion.

Revision of Soviet history, like the doctrinal revisions also announced recently, appears to have a twofold purpose. By washing its face and putting on a clean shirt the regime hopes to find a readier welcome in the international community. At home, it is part of an effort to reinvigorate intellectual activity by removing a number of Stalinist taboos and historical falsifications. While this revision will be a controlled process, there are signs that it will eventually reach substantial proportions.

The outlines of the new historical approach were set out at the party congress by Anna Pankratova, one of the regime's foremost "house historians." Condemning the "cult of personality," she indicated the need for a new look at the history of the whole post-revolutionary period. The present official history, which is little more than a testimonial to the genius of Stalin, was said to be unsatisfactory. Party historians should go back to the revolution, she said, and reassess the part played by the hitherto neglected Old Bolsheviks.

Taking this cue, the Soviet press has in recent weeks begun a display of affection and respect for a number of long-for-

gotten Old Bolsheviks. The purge period of the 1930s is now to be interpreted as an excess resulting from the "cult of personality." Accordingly, a start has been made toward restoring the reputations of such Old Bolshevik victims of the purge as Kosior, Potyshev, Kosarev, Chubar and Gamarnik.

The history of the USSR, Pankratova stressed, is no longer to be interpreted in the oversimplified and distorted terms applied in the past. In Stalin's day every Soviet achievement was seen as a sign of his genius and every setback was attributed solely to the work of foreign enemies. This approach has done great damage to the Soviet cause because it has made impossible a realistic appraisal of outstanding problems and has hindered their solution. Subsequent announcement that the archives of the Ministries of Defense, Interior and Foreign Affairs are to be opened to Soviet historians is a step in the direction of meeting this problem.

Idealization of the heroes of Tsarist times, a conspicuous incongruity of Soviet historiography, is also to be discontinued. Suvorov, Kutozov and Ivan IV, for example, who served Stalin as symbols of Russian nationalism, will no longer be treated as national heroes and the bearers of progressive Russian culture to inferior peoples.

Little has been left of Stalin's reputation. As it stands now, he is said to have contributed to the achievements of the Soviet Union in its early days but thereafter to have embarked on an erroneous and harmful policy. Satellite

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leaders and their propaganda media have adopted this line as explanation to their parties of the meaning of the 20th congress. It appears now, however, that the attacks on Stalin will be carried even further. If, as Deputy Premier Mikoyan intimated to Ambassador Bohlen, Lenin's testament, which reputedly found Stalin "crude" and unfit to be party secretary, is published, the blackening of his reputation will be virtually complete.

Within the party, this may already have been achieved. Ambassador Bohlen reports that he has been informed that Khrushchev delivered an address lasting two or three hours to a secret session of the party congress, excoriating Stalin and explaining why the party had to destroy his reputation. Bohlen also reports that several busts of Stalin are known to have been removed from public places, and the ambassador has been told that Stalin's body may be removed from the Lenin-Stalin mausoleum.

The desire to create a new image of the USSR in foreign eyes can be clearly seen in this historical revision. It has domestic objectives as well, however, a clue to which can be found in the latest issue of the party's theoretical journal.

The "cult of personality" has hampered the development of revolutionary theory, the journal asserts. "This cult killed faith among workers of the ideological front in their own strength and in their capacity to move theory forward, and raised the idea that the development of Marxist-Leninist theory and its enrichment were the destiny of the chosen."

The party now wants, it seems, to overcome the stultifying effects of years of sycophantic subservience to the whim of an "infallible" leader and to encourage a more realistic and fruitful approach to the problems facing it.

It is probably a sign of confidence that the present regime does not feel the need of some of the props of falsified history inherited from Stalin and has moved, to some extent, away from the defensive, ultranationalistic attitude which, in Stalin's time, buried Soviet history in a miasma of conspicuous absurdities. It is Stalin's history which the present leaders are rewriting, however, not their own, and it remains to be seen how much objectivity will be applied to an analysis of their own era, for instance, in such matters as the Beria purge. 25X1

New Soviet Agriculture Decree Curtails Private Ownership

A new Soviet agricultural decree of 9 March opens a campaign to end the 20-year compromise between the Communist Party and the Soviet peasant. In the coming months, the party plans to move fast and as far as possible toward complete elimination of the private plot

and personal livestock holdings. The terms of the decree, however, leave the way open for a retreat from advanced positions if the drive provokes serious popular resistance.

Individual holdings of land and livestock presently

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account for the greater part of peasant income. About 60 percent of the total number of cows in the USSR, and about 30 percent of the pigs, are privately owned. These holdings, however, greatly hamper the collective farms because they encourage the shirking of communal tasks.

The decree calls on collective farms to reduce the size of private plots of those who fail to devote the required amount of labor to communal tasks. It recommends a re-examination of personal livestock holdings in a context clearly implying that they should be reduced. Lastly, it seeks to make communal labor more attractive by providing monthly advances to collective farmers in place of annual lump-sum payments.

The decree climaxes a number of recent indirect measures putting pressure on the private plot and livestock. The burden of executing it clearly falls on party members, whose numbers in agriculture have greatly increased since 1953 and now exceed 3,000,000.

The casting of the decree in terms of "recommendations" to collective farms, however, leaves room for the party leaders to disclaim responsibility for abuses which local officials may be forced to commit as the campaign accelerates in the next few months.

If the local officials encounter serious resistance, the party will have to decide whether to drive through to complete socialization at any cost or to retreat, for the sake of maintaining output, as it has in the past.

Soviet agricultural policy has been punctuated by a series

of drives since collectivization began in the early 1930s. The compromise mixture of communal and private property has remained unstable, with the party periodically trying to squeeze out private elements and the peasant constantly seeking to concentrate on his own household economy and avoid communal labor. At various times, most recently the period 1948-52, intensified party pressures provoked a decline in production.

The official attitude was relaxed in 1953 as part of the measures for agricultural growth, but the conflict remained unresolved. Two complementary lines of policy have developed in recent years: higher financial incentives for communal work and indirect pressures on private activity. The leaders evidently have determined that their economic and political preparations are now complete.

The party's ultimate goal is to bring peasant ways of life more closely to those of urban life, in order that factory methods of organization and discipline can be imposed on agriculture. The new decree provides for an incentive pay system similar to that used in industry and envisions a greater role for money wages as opposed to payments in kind. The large-scale assignment of agricultural specialists to collective farms since 1953 also has had an urbanizing effect, as did the transfer in 1953 of tractor drivers to the machine tractor stations, which used to borrow them from collective farms for seasonal work.

Even the concentration of farm villagers in larger communities (agrorods), which was publicly repudiated when Khrushchev proposed it in 1951, is now favored in the Soviet

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press and may be scheduled for implementation soon.

These changes in the collective farm system, and the reactions they provoke among the peasantry, will be important determinants of agricultural developments. The incentives to increase communal output now offered to collective farmers, as well as the penal-

ties for spending too little time working on communal tasks, may weaken peasant resistance to complete socialization. On the other hand, peasant dissatisfaction at being forced still further into the collective strait jacket may result in a net loss in agricultural production and cause another delay in the drive for complete socialization.

(Prepared by ORR)

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Communist China's Economic Dependence on the USSR

The composition and origin of Communist China's imports since the beginning of its First Five-Year Plan (1953-57) bear out Khrushchev's 14 February speech to the 20th Party Congress on the nature and magnitude of Soviet aid to Communist China. These imports, and those expected during the remainder of the Five-Year Plan, emphasize China's dependence on the bloc, particularly for key industrial and military equipment.

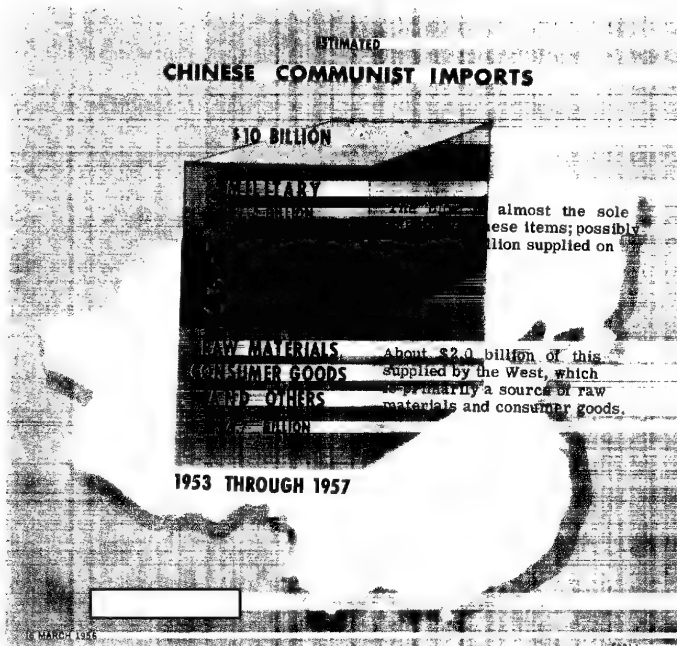
Industrial Aid

Soviet aid is clearly essential to China's industrialization, since 156 major industrial installations being built and largely equipped by the USSR constitute the nucleus of

China's industrial construction through 1960. The First Five-Year Plan report issued in Peiping in August 1955 stated that 145 of these installations will be under construction by 1957. More may be under construction by then because, according to recent Peiping propaganda, the schedule for building electric power and machinery plants has been advanced since the First Five-Year Plan was prepared.

Peiping has said that work on projects in this Soviet aid program during the First Five-Year Plan will cost China the equivalent of \$4.4 billion--44 percent of investment in all industrial construction planned for the period.

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in some cases advanced, enabling China to maintain rapid industrial and military progress.

Military Aid

China has built up the world's fourth largest air force; it is expanding its small navy, and is modernizing its army. The material that makes this possible--received almost entirely from the Soviet bloc--will reach a value estimated at \$2.5 billion during the First Five-Year Plan. The equipment involved will account for 25 percent of China's total imports and 20 percent of total expenses of its military establishment during this period.

Credits

Communist China is enforcing severe austerity at home to provide exports to pay for a large proportion of its estimated \$10 billion imports from 1953 through 1957. The remainder of these imports will be paid for by secret military credits, probably in excess of \$1 billion during the First Five-Year Plan, and long-term industrial loans which may total another \$300,000,000. In underwriting existing programs for economic development and military modernization, the USSR does not appear to have withheld military or industrial equipment because of Chinese inability to pay. (Prepared by ORR)

Khrushchev told the party congress that in an unspecified five-year period the USSR will ship equipment worth 5.6 billion rubles--\$1.4 billion at the official rate of exchange--to its industrial aid projects in China. This figure is about the amount the USSR would be expected to deliver during China's First Five-Year Plan. Soviet deliveries to the 156-project aid program will comprise about 20 percent of all equipment required for the entire Chinese capital investment program for the 1953-57 plan period. The USSR and Satellites are also supplying lesser projects with capital equipment valued at about the same amount.

Peiping appears to have a high priority for delivery of Soviet equipment. Schedules have been consistently met and

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Okinawan Election

The decisive victory scored by the conservative and pre-American Ryukyu Democratic Party (RDP) in the Ryukyuan election held on 11 March suggests that sentiment for reversion of the islands to Japan is not so strong as the Japanese and some Okinawans have claimed.

Approximately 75 percent of the eligible voters of the islands' estimated 798,200 population participated in the election. The RDP increased its seats from 12 to 16 in the 29-member unicameral Ryukyuan legislature and the party's majority will be further strengthened by the support of four independents who oppose return of the Ryukyus to Japan.

The leftist Okinawa Socialist Masses Party, which opposes close ties with the United States and also advocates the islands' return to Japan, won eight seats, a decline of two from the number they held in the outgoing legislature. The pro-Communist Okinawa People's Party ran five candidates but was again able to elect only

one, an incumbent of the previous legislative body.

The RDP victory takes on added significance because the party is handicapped by its identification with the United States in a political battle in which advocacy of reversion to Japan is a perennially favorite political issue. Even the RDP hesitates to support American policies too openly and thereby become vulnerable to allegations of favoring the continued jurisdiction of a "foreign nation" above reversion to the "fatherland" of Japan.

All parties were united in their campaigns in advocating greater local autonomy, popular election rather than appointment of the chief executive of the government, and increased compensation for land acquired for military use. Thus, the election will not eliminate some serious points of conflict between the island government and the American administration.

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25X1Laos

Premier Katay having failed to form a government in Laos, Souvanna Phouma, a former premier and defense minister in the Katay government which resigned on 14 February, has again been called on to attempt the formation of a new cabinet. His chances of success appear to be better than even as he will be supported by Katay, who opposed him in his first effort. He is faced with an extremely delicate situation, however. Tenuous party lines have been

shattered, and relations among the 39 deputies in the national assembly have been strained as a result of numerous deals made since last December's elections.

Bong Souvannouvong, leader of the small National Union Party and a Pathet Lao sympathizer, has skillfully exploited this situation, and by joining with anti-Katay elements in the assembly has emerged the nominal leader of a strong coalition bloc called the Lao Union for Public Welfare.

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Bong, who refers to the Pathets as "our compatriots who wish to work with us for the good of the nation," seeks the premiership on the pledge that he will solve the Pathet Lao issue within three months or resign. [REDACTED]

Although it is not expected that Bong will be given an opportunity to try to form a government, his activities have tended to stimulate neutralism in the assembly. His emphasis on a peaceful approach to the Pathet Lao issue may also dissipate a resolve on the part of the government to use direct means--principally expanded guerrilla operations--to wrest control of Phong Saly and Sam Neua Provinces from the Viet Minh-supported Pathets.

Frustration among the deputies over the unresolved Pathet Lao situation, which the government has tried to settle by negotiation since January 1955, is reaching a point where overtures from Peiping or Hanoi to arrange a settlement might appear attractive to the assembly. The Indian chargé in Vientiane reports that Viet Minh premier Pham Van Dong recently indicated a willingness to exercise his "good offices" to settle the Pathet issue, presumably in return for lessened American influence in Laos.

Recent favorable treatment accorded Laos in the Chinese Communist press indicates the Chinese may be preparing to offer to serve as mediators between Hanoi and Vientiane and at the same time promote Laotian neutralism, as in the case of Cambodia. [REDACTED]

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25X1Cambodia

Overtures by Communist China and the USSR to establish, respectively, economic and diplomatic ties with Cambodia are part of an intensified Communist effort to disrupt Cambodia's relations with the West, particularly the United States. The precarious balance of Cambodia's foreign policy--based on strict neutrality--is revealed in Premier Sihanouk's recent statement that "our policy will essentially adapt itself to circumstances and world developments and to positions taken toward us by various powers."

Communist China's offer to purchase Cambodian rice and

rubber on attractive terms is probably aimed at weakening the UN embargo and, according to the American embassy in Phnom Penh, may also be designed to forestall further American aid to Cambodia. The Communists probably calculate that if Cambodia accepts the Chinese offers, and American aid is terminated because of Battle Act restrictions, Cambodia would be forced to turn to Moscow or Peiping.

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Sihanouk appears interested in the trade offer and is reported to have commented, "If Ceylon can send rubber to Communist China and still receive American aid, why can't I?"

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He announced he would send an economic delegation to Peiping to discuss commercial exchanges.

In his investiture speech on 29 February, the Cambodian premier revealed that he had been assured by Chou En-lai that Communist China stood ready to give unconditional economic assistance to Cambodia. Although Sihanouk referred to "heavy responsibilities" involved in accepting Communist assistance, his statement that Cambodia would accept aid from "the right, the left, and from the center--in any way which will stabilize our policy" suggests he is at least considering such a move to counterbalance American grants.

Regarding the USSR, Sihanouk doubts that Cambodia will be able to avoid recognizing Moscow, a question insistently raised in Peiping by the Soviet chargé there. Cambodia has managed to avoid diplomatic relations with China on the grounds of the unresolved Taiwan issue, but its pretext vis-a-vis Moscow has been based on the

latter's attitude toward Cambodian UN membership which is no longer valid.

Sihanouk has also said that political representation might be established soon with both North and South Vietnam, although outright recognition is impossible. The Soviet chargé had urged early establishment of a Viet Minh embassy in Phnom Penh. In addition, the Viet Minh has for some time indicated a strong interest in establishing diplomatic relations with Cambodia, and Premier Pham Van Dong has this week repeated an earlier invitation for Sihanouk to visit Hanoi.

Cambodia's relations with South Vietnam, however, are still seriously strained by a Vietnamese embargo on Cambodian trade, but both sides are beginning to show some disposition toward a settlement of their differences. Crown Prince Sihanouk's resumption of the premiership and the investiture of a competent "action cabinet" on 29 February to carry out his policies has ended Cambodia's aimless drifting since the first of the year.

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Spain's Position
On Moroccan Independence

The Spanish Foreign Ministry has affirmed Spain's willingness to meet Moroccan nationalist demands for independence. This constitutes no more than an effort to maintain maximum influence in Spain's own zone and the good will of the Arab states in general, and not a change in policy toward Spanish Morocco. Spain may be counting on a breakdown in French-Moroccan negotiations so that it can evade its own rather vague promises toward Spanish Morocco. If the nego-

tiations succeed, however, Spain seems likely to seek extensive economic and political concessions in the whole area as the price of an eventual grant of independence to its zone.

On 13 March, Foreign Minister Artajo confirmed the statement made the previous day by the head of the official Spanish news agency that Spain is willing to negotiate with the Moroccans for the incorporation of its zone in a united independent Morocco. There are several

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indications that Spain has recently been preparing for such a move.

Spain has invited Sultan Mohamed V to visit Madrid soon for talks on Moroccan independence and unity. Following the 3-5 March disorders in Spanish Morocco, the press reported that High Commissioner General Garcia-Valino had been summoned to an "urgent conference" with Franco. There are rumors that his replacement, long a subject of speculation, may now be imminent. Franco has been reported as resigned to the eventual independence of Spanish Morocco and may be planning to replace Garcia-Valino with some one more acceptable in Moroccan eyes for implementing any agreement reached.

Spain's declared willingness to negotiate is, however, made contingent on the sultan's status as a "free sovereign" under the French-Moroccan declaration of 2 March suspending the protectorate treaty of 1912. This proviso, together with the conditions which the Spanish Moroccan nationalist leader, Abdelkhalik Torres, has declared must be met prior to a Spanish-Moroccan agreement, will be used by the Spaniards to delay actual negotiations for independence.

There are indications, nevertheless, that the Spaniards would like to gain a "ground-floor" economic position throughout Morocco. The statement of 12 March insisted that Spain must receive treatment in all of Morocco equal to that accorded France.

Franco hopes that good relations with both the Moroccan nationalists and the Arab League will give Spain a more favorable status than France in an independent Morocco.

The statement of 12 March, furthermore, would not apply to two important cities of the Spanish zone, Ceuta and Melilla, which have long been legally part of metropolitan Spain. These could serve as bases for a Spanish drive for economic concessions in a unified Morocco.

A further deterioration of Spanish-French relations seems likely. Madrid's repeated public affirmations of sympathy for the Moroccan independence movement will be increasingly resented by the French as a maneuver to gain an independent Morocco's support for Spanish interests in the area at France's expense.

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Denmark's Agreements
With the USSR

Danish prime minister Hansen, during his visit to Moscow, announced that Denmark would build ships for the USSR under a trade agreement to be negotiated in April. The two countries are also to expand their cultural contacts.

Hansen's agreement to build a tanker or two fast freighters for the USSR presents COCOM's strategic control program with new complications. Hansen, apparently because of COCOM prohibitions, later stated in a press interview that Denmark would hardly be able to provide the tanker.

The prime minister bowed to strong domestic pressure to reopen trade talks with the USSR and apparently felt a reversal of Denmark's stand on construction of vessels for the USSR was a necessary concession. Formal trade relations between the two countries were broken off in mid-1954 when Denmark, observing COCOM prohibitions, refused to build any more tankers for the USSR.

The Danes are having difficulties selling their farm products in Western Europe, and in the interests of achieving maximum diversification of trade are eager to have the Soviet market reopened. Neutralist elements among the population stress the political importance of maintaining trade relations with both East and West.

The sale of the two freighters to the USSR would raise serious difficulties in COCOM, where regulations on the export of merchant vessels

to the Orbit have been in dispute. Negotiations on revised controls failed in 1955 when Britain refused to agree to Denmark's exemption from a proposed regulation that all vessels with a speed of over 15 1/2 knots be embargoed.

The freighters which Denmark would sell are described as 10,000-tonners with a speed of 17-18 knots. Regulations require only that Denmark consult with COCOM before making its decision. Despite objections from some COCOM members, the Danes will most likely honor their commitment to the USSR, thus encouraging other countries to be more lax about their COCOM obligations.

Hansen refused the Soviet request for a formal assurance that no foreign troops would be stationed in Denmark during peacetime. No mention was made of Denmark's membership in NATO or of NATO bases in Greenland. Hansen rejected the Soviet proposal that formal contacts be established between the Soviet Communist and Danish Social Democratic Parties.

Apparently at Denmark's suggestion, agreement was reached for an expanded exchange program of students and professors, especially in the arts and sciences. Hansen invited Bulganin and Khrushchev to visit Denmark at some undetermined date in connection with similar invitations from Norway and Sweden. These expanded contacts may convince some Danes that Russia is sincerely seeking peaceful coexistence with the West. 25X1

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PART III

PATTERNS AND PERSPECTIVESCOMMUNIST CHINA'S ECONOMIC OFFENSIVE IN SOUTH ASIA

As part of the general Communist economic offensive in Asia, Communist China is offering to buy agricultural surpluses at premium prices and is making available a wide range of manufactured products at low cost. Peiping is thus trying to impress Asians with the speed of Communist China's industrialization and to encourage neutralism through increased trade. These economic activities, which are more modest than the Soviet campaign in the area, complement rather than compete with Soviet activities, and the over-all Communist effort appears to be well coordinated.

Offers of Industrial Products

Communist China is determined to acquaint the Asian people with Chinese products by increasing its share in the low-priced consumer goods market through sales of textiles and light industrial commodities on more favorable terms than competing items from outside the bloc. These items account for a notably larger share of Communist China's exports to Malaya, Hong Kong and Burma in recent months.

Moreover, China began exporting heavy industrial goods in 1955 with deliveries of 25,000 tons of steel products to Burma and contracts to deliver 60,000 tons to Egypt by mid-1956. Continued export of these items is intended to demonstrate to Asians the rapid growth of an underdeveloped economy with Soviet guidance and assistance.

A new protocol to the 1954 Sino-Indian trade agreement is now being negotiated in New Delhi. Chinese exports under this pact are to include

construction materials and 50,000 tons of steel, all of which are required by India for its Second Five-Year Plan.

Effect on Chinese Industry

In addition to its propaganda value, the new export drive may even support planned development of heavy industry in China. It earns foreign exchange without apparently depriving heavy industry of critical materials. The new exports are either products of the large and recently socialized consumer goods industry, or are industrial materials which, according to trade data, are at least not in seriously short supply.

Officially guided tours for South Asian business and government groups are being sponsored by Peiping. Favorable press statements issued by these visitors, who come from basically agricultural countries aspiring to rapid industrialization, indicate that their itinerary is carefully planned to include mainly the installations being constructed with Soviet aid.

Communist China

plans to invite representatives from most Southeast Asian countries to witness the production of China's first motor vehicle at Changchun in August this year. The plant at Changchun will be one of the first large new machine building plants to go into operation and will be presented as evidence of China's industrial progress.

Encouragement of Neutralism

China's trade offensive in Asia includes countries known to be following a pro-Western

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policy such as Pakistan, Ceylon and Thailand. In these countries Peiping aims at encouraging and exploiting growing popular pressures for increased economic relations with Peiping.

Pakistan: The Pakistani premier probably will discuss a formalization of economic relations between China and Pakistan during his visit to Peiping later this spring. Market reports suggest that the Chinese are holding back on normal cotton purchases from Pakistan to allow later procurement to be publicized as part of an expansion of China's foreign trade. Large Chinese Communist purchases of raw cotton at the appropriate moment would help to impress Pakistan with the benefits to be derived from formal trade relations with Peiping. Such actions would be political rather than economic in motivation, since China's last cotton crop was notably successful.

Ceylon: The Sino-Ceylonese rice-rubber pact, under which Peiping purchases rubber at premium prices, has not seriously affected Ceylon's pro-Western policies, but Peiping is interested in diversifying and developing Sino-Ceylonese trade.

By implementing a provision of the rice-rubber agreement, China has, under the fourth annual contract, offered commodities for Ceylonese acceptance in lieu of the usual sterling payment. Peiping has explicitly offered wheat flour and sugar purchased from France with sterling and small cargo ships built in Poland to reduce the adverse balance under the rice-rubber agreement.

Thailand: To support the efforts of Thai groups favoring the establishment of direct trade with Communist China,

Peiping--a net exporter of rice--has offered to purchase Thai rice. Peiping is apparently trying to undermine the Thai government's intention to prohibit all direct trade with China by offering an opportunity for large personal profits to government officials who have extensive interests in rice exporting companies.

Cambodia: Chou En-lai took advantage of the Cambodian premier's February visit to China to reward Cambodia's adoption of a neutral policy by offering "unconditional economic assistance." In acknowledging this offer, the Cambodian premier noted that other offers of aid had entailed compromise of Cambodian independence of action, whereas Peiping accepted Cambodia's refusal to consider political recognition at this time as warranted by its neutral position.

Although there is no economic basis for any significant exchange of goods, during talks to take place shortly in China, Peiping will probably offer premium prices for surplus agricultural commodities such as rubber.

Burma and India: Peiping maintains that its economic relations with Southeast Asia are based on exchanges that are advantageous to all trading partners. Recent Peiping press releases have called attention to expressions of satisfaction by Burma and India over increased economic relations with Communist China. Peiping notes that all three countries are regions of vast resources busily engaged in economic construction and that mutually beneficial economic co-operation furthers the development and industrialization of each of the three countries.

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Types of Bloc Efforts

The Chinese economic program in South Asia is more modest than the Soviet campaign in the area. It is mainly aimed at increasing trade, in contrast with the Soviet effort, which emphasizes the export of industrial installations and technicians.

While China is planning to build a cotton mill in Burma soon, it is not known to have any other plans for export of capital equipment to South Asia. It has apparently dropped vague offers it made following the Bandung conference in early 1955 to provide a cement plant for Indonesia and paper and jute mills for Burma.

A Chinese offer of assistance in the development of Nepal in February was probably a follow-up to the campaign that resulted in Nepalese official recognition of China. While the assistance to be rendered was not defined, any serious effort in Nepal would complicate China's relations with India.

Peiping, at present at least, plans to supplement rather than compete with the Soviet bloc in expanding economic relations. This is evident from recent Peiping propaganda citing the Soviet Union

and European Satellites as sources of industrial installations while the availability of such equipment from China was not mentioned.

The Chinese, who have much less to offer, will probably continue to be more moderate and easy to deal with than Soviet representatives in economic actions with Asian countries. A softer diplomatic approach by China is also apparent. For example, Chou En-lai's attendance at the Bandung conference a year ago was marked by the avoidance of controversial subjects. More recently Madame Sun Yat-sen's visit reflected a continuation of this policy, which differs considerably from that followed by Bulganin and Khrushchev in their Asian tour.

Chinese Communist propaganda mutes differences in approach between Peiping and Moscow and publicizes the concept of Chinese-Soviet solidarity. In its turn, the Soviet bloc supports Peiping's trade activities by quietly buying from China much of the rubber China imports from Ceylon and far greater quantities of rice than China imports from Burma. Both the USSR and Communist China evidently will continue to display their unity in a concerted effort in Asia. [] Prepared by ORR)

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THE FRENCH ECONOMIC SITUATION

At a time when the French position in North Africa is under severe attack, France is entering its third year of unprecedented prosperity. Serious basic weaknesses remain uncorrected, however, and the busi-

ness community is nervous about a Socialist-led government's economic policies. Premier Mollet's proposals for dealing with the Algerian problem involve vast new expenditures which may set inflation in

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motion again and arrest the expansion of the economy.

Economic Boom

Despite the generally unsettling effects of the North African situation, the French economy continued to boom throughout 1955. There was nearly full employment, a record industrial production index of 181 (1938 = 100) in November, increased gold and short-term dollar holdings, and a generally favorable balance with the European Payments Union for the year. Wages rose steadily during the year, bringing the estimated average level up 7 percent over 1954. At the same time retail price levels rose only fractionally, and consumer goods increased considerably in number and variety. The only lag in major industries was in textiles and leather goods.

French business leaders and economists foresee continued prosperity during the first six months of 1956, and no major letdown in business activity is expected during the current year. An official poll among industrialists, wholesalers and retailers, taken in November 1955, indicated that over two thirds of those interviewed believed industrial production would increase 3 to 10 percent in 1956.

Other sources, including the Finance Ministry, see no immediate letup in the continued over-all increase in production. The rate of increase is expected to fall off, however, and, in the face of continuing consumer demand and increased government expenses--particularly in connection with North Africa--will probably result in a fairly general rise in prices.

Factors Threatening the Boom

Until more definite steps are taken to correct such basic weaknesses as noncompetitive

prices, continuing government subsidies and protection for trade, and insufficient private investment, the current aura of prosperity could be dissipated by slight changes in any of a number of factors. French officials and other observers fear that broad wage increases, or a drop in public confidence in the franc, would bring about a new inflationary spiral which could undo the progress made over the past two and one half years.

The tenuous position of the franc was graphically illustrated in December when speculation on the outcome of the national elections brought about a 30- to 40-franc rise in the value of the dollar, despite more than two years of relative stability. Increased activity in the money market was in turn directly reflected in the status of France's international clearances in the European Payments Union. A deficit of \$55,000,000 in January brought the first major break in over a year of generally favorable monthly balances.

Furthermore, government costs and the budgetary deficit, which preliminary figures for 1955 indicate was about 1.2 billion dollars, will probably increase sharply in 1956. Mollet's Algerian program involves extraordinary military expenses as well as funds for Algerian agricultural and industrial development which will require new internal borrowing.

The budget burden will also be increased by larger social security benefits just as dollar receipts--particularly dollar support for the French troops in Indochina--are being substantially reduced. Moreover, the continuing atmosphere of economic expansion is expected to bring about an increase in imports which would also tend to reduce France's gold and dollar holdings.

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Business Attitudes

The problem of continuing expansion without inflation rests to a large extent on the maintenance of confidence. The accession of a Socialist government with left-center support has caused considerable concern among businessmen, who fear developments adverse to their interests, including possible broad wage increases or devaluation.

Mollet has taken steps to reassure business opinion by pledging to combat inflation and by limiting his immediate concessions to labor to three-week vacations, increased old-age benefits, and a reduction in wage-zone differentials. He has also tried to build confidence in his government by giving cabinet posts to people with business ties. These include Robert Lacoste, for example, who has friendly connections in banking circles, and Jean Filippi, a Radical senator who is a corporation director.

Despite Mollet's efforts, business leaders will probably continue to have some apprehensions about the government's program. Fear of inflation may lead to business retrenchment which will hamper further economic development. Free labor leaders feel that the psychological effects of a move by management to suspend wage negotiations until government tax and financial policies are known would facilitate Communist exploitation of labor resentment.

Political Pressures

The political aspects of the wage question appear to be potentially the more dangerous. Despite the gains made during 1955, labor is expected to bring

pressure for further increases this spring, and the Communist-led General Labor Confederation will probably attempt to use such demands in support of Communist pressure for a Popular Front. Since the Socialists vie for the labor vote which goes in large measure to the Communists, Mollet can be pressed for widespread wage hikes which might alienate both the Radicals and the right center.

Mollet's political vulnerability on the question has been increased by the extravagant promises made by some Socialist candidates during the election. Free union spokesmen have expressed the fear that despite Mollet's effort in the mid-January Socialist Congress to tone down these campaign statements, the Communists may be able to exploit them if the government holds back on wage increases.

The political aspects of economic programing have also created strains in the relations between Socialists and Radicals in the Republican Front. Mendes-France, fearful that overemphasis on social reform will tip the economy toward inflation, refused to accept the Finance Ministry post in Mollet's government. In a letter to his fellow Radical Socialists on 17 February, he stated that neither he nor the Radical Party opposed social reforms, "but there would be an evident danger if the reforms were not preceded or accompanied by measures to prevent a threatening increase in prices and to improve noticeably the balance of the treasury and of foreign accounts."

Nevertheless, the effort to maintain the wage price balance is aided by an economic atmosphere which, despite the threat to France's interests

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in North Africa, remains unusually favorable. There is also a general recognition among key labor, management and government figures of the existing dangers. The American

embassy points out that the chief danger lies in the possibility that the non-Communist forces may squabble over what should be done, thus playing into the hands of the Communists. 25X1

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WEST GERMAN ATTITUDES ON ALLIED MILITARY SUPPORT COSTS

The West German cabinet is apparently unanimous in its determination to discontinue direct cash payment for the support of NATO-committed troops stationed in West Germany after the present special agreement expires on 5 May. The cabinet appears to be divided over the scope and form of alternative arrangements.

Financial Aspects

After 5 May, West Germany's annual cash contribution of 3.2 billion marks for NATO troop support will cease. West Germany agreed to this sum in October 1954 at the time West German sovereignty was arranged for. While the finance convention of the 1954 treaty provided for resumption of negotiations on support costs--as in fact occurred the beginning of this month--it did not commit West Germany to the principle of direct cash payments after 5

May. The Allied view has been that so long as West Germany had no forces in being and was not using all of the monies committed in its budget for defense, support payments would be continued for troops actually defending West Germany.

Financially, West Germany can afford to continue making a substantial contribution to troop support. Foreign exchange reserves in November 1955 amounted to the equivalent of \$2.3 billion. West German rearmament is moving slowly, and rearmament expenditures this year will likely fall considerably below the 5.2 billion mark budget.

According to estimates revealed in the NATO annual review, if the West Germans do not extend support payments, their defense expenditures for fiscal 1956-57 will amount to only 6.8 percent of the gross national

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product, as compared to 9-11 percent for the United States, 9-10 percent for Britain, and at least 7 percent for France. These other countries, moreover, devoted to their defense build-up a percentage of GNP considerably higher than that currently envisaged by the Bonn government.

Public Pressure

West German public opinion, however, is solidly arrayed against the idea of continuing the cash payments. Although several major newspapers admit that various interpretations can be put on the wording of the finance convention, the consensus of editorial comment is that the Allies want "to bleed" the Federal Republic. All papers strongly reject Allied demands for continued troop support payments, calling such demands discriminatory and springing from a reluctance to give up the prerogatives of the occupation period. Most of the press supports the Socialist view that the Allies are demanding support payments because of the Bonn government's policy of hoarding large cash reserves.

Cabinet Position

The cabinet now appears to be unanimous in the opinion that further cash payments are politically impossible, since they would imply continuation of the occupation and put the government on the defensive in the national election next year. Finance Minister Schaeffer also alleges that the cash payments generated inflationary pressures that delay West Germany's own rearmament program.

The government seems to have reached no firm decision, however, about alternative arrangements. Economics Minister Erhard and Foreign Minister Von Brentano are more conciliatory than Schaeffer. Erhard has discounted the inflationary effects of continuing troop support payments.

The British would be hit hardest among the Allies by West Germany abandoning its support cost payments. Their budgetary troubles would be aggravated, since West German payments are equal to 3 percent of Britain's estimated total military expenditures for the coming fiscal year.

A Possible Alternative

American ambassador Conant in Bonn believes there is a close relationship between the question of continuing support cost payments, the speed of the West German military build-up, and additional American military aid. Conant estimates that the most Bonn could be expected to agree to is a bargain by which it would continue some cash payments during the first year of their military build-up--when not all the funds appropriated can actually be spent--in return for the promise of additional outside aid during the third year of the build-up when the government anticipates serious economic strains.

In view of the differences of opinion in the cabinet on the implication of the support costs question for West Germany, Chancellor Adenauer may be forced to intervene personally, with a decision made on broad political grounds.

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ROLE OF SOVIET NAVY MAY BE UNDERGOING RE-EVALUATION

Soviet leaders may be engaged in re-evaluating the role of the Soviet navy in the light of its suitability for modern combat. Khrushchev told the British ambassador in Moscow on 6 March that Soviet ships are "obsolete" and unsuited for modern war conditions. The navy commander in chief responsible for the postwar build-up apparently has been replaced and the Communist Party central committee now includes only one naval officer, a candidate member, whereas in the previous committee one full member and three candidates were naval officers.

Almost immediately after World War II the rehabilitation of the Soviet naval shipbuilding industry was begun, and partly finished destroyers, cruisers and submarines of prewar design were completed and others laid down. By about 1949, the Soviet navy had regained most of its defense strength. Meanwhile, through research and experimentation with the aid of German engineers, postwar designs of destroyers, cruisers and submarines were completed and very extensive building programs were begun.

Under this construction program, large numbers of cruisers, destroyers and submarines of reliable and rugged, but not ultramodern, designs were built and are still being built. Despite the fact that no aircraft carriers were laid down, the traditional role of the navy as a seaward adjunct of the land forces appeared to be changing.

The programing of several hundred long-range submarines gave the Soviet navy an offensive striking power which it had never had. Nevertheless, the surface ships and the submarines are all of conventional design. In a few more years, the rapid advances in naval warfare concepts and techniques by Western countries will have made many of the new Soviet ships substantially inferior to their Western counterparts unless major modifications such as the addition of guided missile armaments and nuclear propulsion are made.

Admiral N. G. Kuznetsov had been commander in chief of the navy between 1939 and 1947 but was court-martialed by Stalin and demoted. In July 1951 he was reinstated and became head of the Naval Ministry. On the merger of the War and Navy Ministries in March 1950 he became a first deputy defense minister. Kuznetsov thus is closely associated with the second phase of the build-up of the postwar Soviet navy.

The second demotion of Admiral Kuznetsov may have begun as early as July 1955, when he was absent from Navy Day celebrations in Moscow. More recently, he was dropped from his position as full member of the central committee. Concurrently, three other admirals were dropped from alternate membership of the central committee. Only Admiral S. G. Gorshkov, who apparently has replaced Kuznetsov as commander in chief of the navy, now represents the navy on the central committee; Gorshkov is a candidate member.

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The weakening of the navy's position on the central committee was accompanied by the elevation of Marshal Zhukov to candidate membership of the party presidium. Zhukov is the first professional military officer to reach this position. Zhukov's speech to the party congress on 18 February included a statement that "the Soviet navy is now capable of reliable defense, alongside the army and air force, of the sea frontiers of our motherland." Nowhere did he indicate an offensive role for the Soviet navy, although he claimed that Soviet aviation is now capable of performing "any mission" which might be required of it.

Khrushchev's opinions of 6 March regarding the

"obsolescence" of navies in general and the unsuitability of Soviet ships for modern war reportedly were expressed in a jocular tone. Ambassador Bohlen speculates, however, that since last summer there may have been a re-evaluation of the Soviet naval position, particularly the postwar construction program, which may account for the reduction of naval representation on the central committee.

The effect on the Soviet navy of Khrushchev's and Zhukov's attitude cannot yet be determined. It appears possible, however, that the present building program may be curtailed or redirected toward producing ships of more advanced design.

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SOVIET POSTWAR NAVAL GROWTH

| CLASS OF SHIPS | ON HAND 1945 | POSTWAR FOREIGN ACQUISITIONS | PREWAR DESIGNS COMPLETED AFTER WAR | POSTWAR DESIGNS COMPLETED | CURRENT STRENGTH |
|-------------------|--------------|------------------------------|------------------------------------|---------------------------|------------------|
| Carriers | 0 | 0 | 0 | 0 | 0 |
| Battleships | 2 | 1 | 0 | 0 | 3 |
| Monitors | 0 | 1 | 0 | 0 | 1 |
| Heavy cruisers | 6 | 0 | 0 | 0 | 6 |
| Light cruisers | 0 | 2 | 5 | 15 | 22 |
| Destroyers | 46 | 5 | 81 | 20 | 137 |
| Escort destroyers | 0 | 0 | 0 | 61 | 61 |
| Submarines | accurate | | | | |
| Long range | figures | 10 | 14 | 183 | 258 |
| Medium range | not | 1 | 12 | 13 | 54 |
| Short range | available | 2 | 60 | 0 | 109 |

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DEVELOPMENT OF SOVIET ELECTRIC POWER

"Communism is Soviet power plus electrification of the whole country" -- Lenin in his REPORT TO THE 8TH CONGRESS OF SOVIETS on 22 December 1920.

Electric power development under the USSR's draft Sixth Five-Year Plan is geared to a new 15-20 year electrification program. Calling for a rate of expansion a little higher than that achieved in the last five-year plan, the new plan requires twice the absolute increase achieved in 1951-55. It will probably be fulfilled for power production but not for installed capacity. The 15-20 year program emphasizes large individual projects, useful also for propaganda purposes, including at least four hydroelectric stations bigger than any now in existence and the world's largest and highest-voltage transmission system.

Electric Power Production

The Sixth Five-Year Plan calls for an 88-percent increase in electric power output by 1960. Electric power production will continue to grow faster than the Soviet gross national product and total industrial output. The magnitude of these goals is best illustrated by the necessary annual increment: between 1950 and 1955, the increase in Soviet production of electric power averaged 16 billion kilowatt hours (kwh) per year; in the 1956-1960 period the annual growth must average 30 billion kwh per year. By way of comparison, the average US annual increment of electric power in the period 1951-1960, it is estimated, will be 58 billion kwh.

In 1950, Soviet output of electric power was about one

fifth that of the US and in 1955 about one fourth. In 1960, it will reach about one third of projected US production. Should present rates of growth continue, Soviet production of electric power will catch up with that of the United States during the Twelfth Five-Year Plan (1985-1990).

Soviet industry's consumption is growing. In 1955 it used about 70 percent of the power produced, as compared to 50 percent for the United States. In absolute amounts, it will probably be using nearly half as much as American industry in 1960, as compared to nearly one third in 1950.

Generating Capacity

As in the last two Five-Year Plans, goals for adding new generating capacity will probably not be achieved. Since the estimated increase in generating capacity of 2.3 times is desired partly in order to increase the very limited reserve, the goal can be underfulfilled by 15 to 20 percent without affecting fulfillment of the plan for electric power output. However, failure to achieve the scheduled reserve of generating capacity will preclude a much desired improvement in maintenance and reliability of the individual power stations. Lack of reserve capacity may also retard the five-year plan goal to reduce the workweek in industry from 48 to 41 hours.

The Sixth Five-Year Plan calls for an increment to generating capacity of nearly 10,000,000 kw per year in the 1956-1960 period as compared with less than 4,000,000 kw per year in 1951-1955. Availability of the generators themselves is a major limiting factor. The Sixth Five-Year Plan schedules the annual production of

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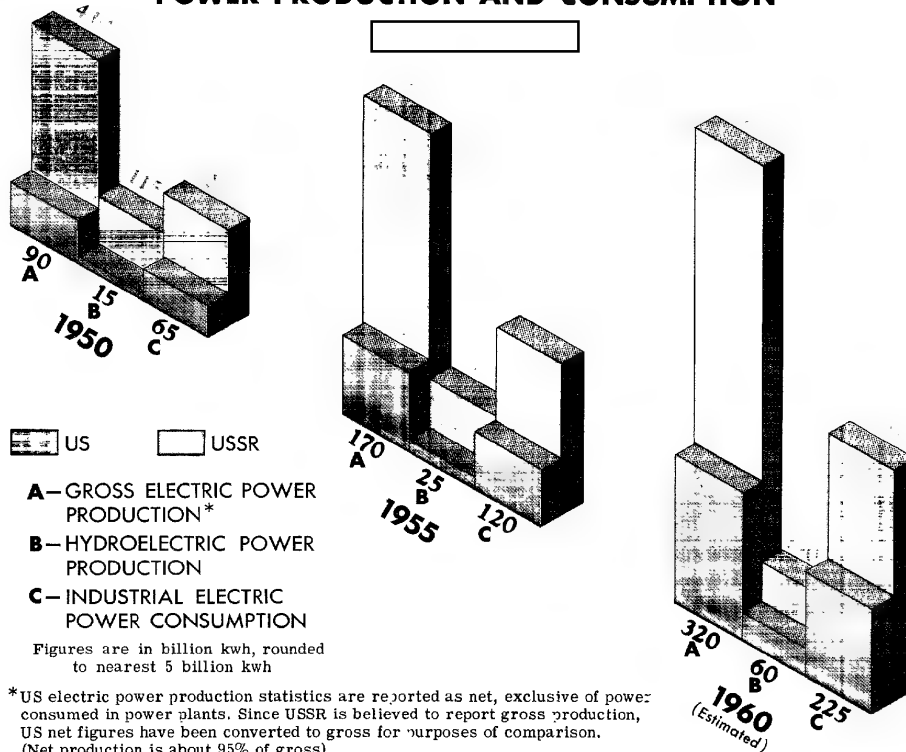
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**US-USSR
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generators to grow from 4,500,000 kw total capacity in 1956 to 11,000,000 kw in 1960. This does not seem adequate to allow a 10,000,000 kw average yearly increase in installed capacity. A serious effort to meet the planned goals will mean importing considerable generating equipment--turbines and generators--and will preclude significant exports of such equipment.

Hydroelectric Program

The publicity accorded the hydroelectric construction program continues to be far out of line with its importance in total power production. The 1960 target for production by hydroelectric stations, 59 billion kwh, is less than 19 per-

cent of the total planned output for that year. About 10,000,000 kw of hydroelectric capacity will be added by 1960, to give a total of approximately 16,000,000 kw.

At least two thirds of this added capacity will be in a group of major hydroelectric stations, frequently mentioned in the Soviet press, which are now in advanced stages of construction. Stalingrad, with 2,300,000 kw, will be the world's largest when completed.

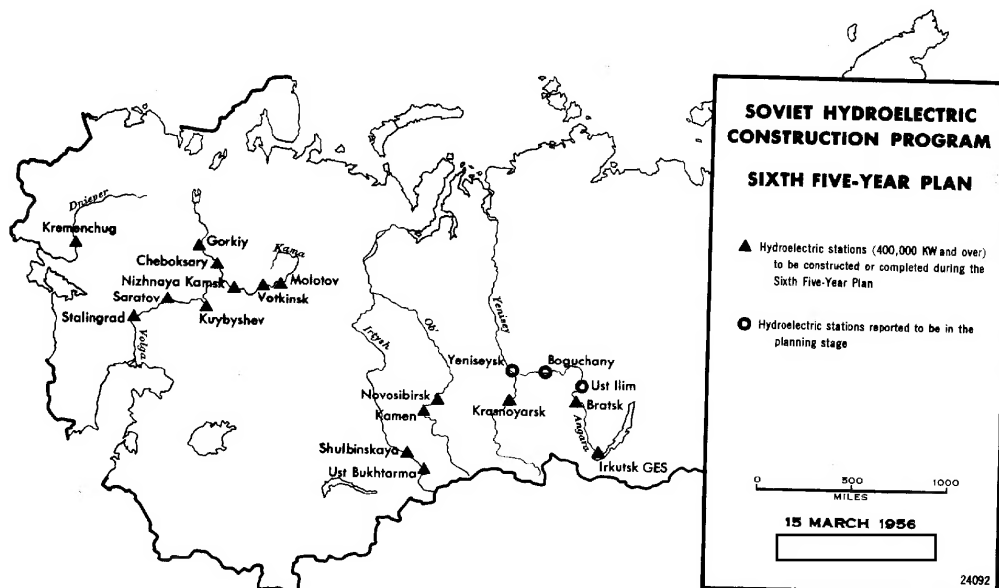
Even larger stations will be started during the Sixth Five-Year Plan period: Bratsk on the Angara and Krasnoyarsk on the Yenisey will have 3,200,000-kw capacities. In

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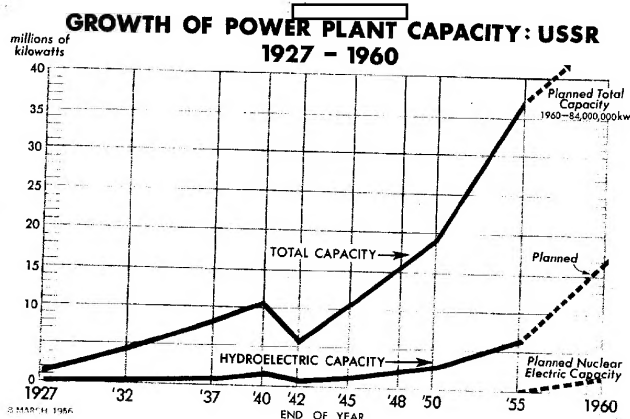
addition, planning is in progress for stations at Ust Ilim and Boguchany in East Siberia, which will be about the same size as Bratsk and Krasnoyarsk, and a 5,000,000-kw station on the Yenisey.

Nuclear Power Program

The Soviet program to construct nuclear thermal electric stations having a total capacity of 2,000,000 to 2,500,000 kw is highly ambitious. The attainment of a hydroelectric capacity of about 2,000,000 kw was spread over nearly four five-year plans. The construction period for large conventional thermal electric stations is two to three years. Nuclear stations are experimental in nature and probably cannot be built as rapidly.

Should the USSR attain 2,000,000 kw by the end of 1960, nuclear plants would

then account for about 2.5 percent of total planned generating capacity and possibly about 2 percent of the total planned production. I. V. Kurchatov of the Soviet Academy of Sciences, speaking before the 20th Party Congress, claimed that two nuclear plants with a total capacity of 1,000,000 kw would be located in the Urals and one of 400,000 kw near Moscow. The remaining capacity will probably be in smaller plants located in fuel deficit areas.



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The first of these plants may go into operation during 1957.

Kurchatov stated that investment costs per installed kw will be about one and a half times the cost of a conventional thermal electric plant, and he claimed production costs will be comparable to present Soviet electric power production costs.

Technology

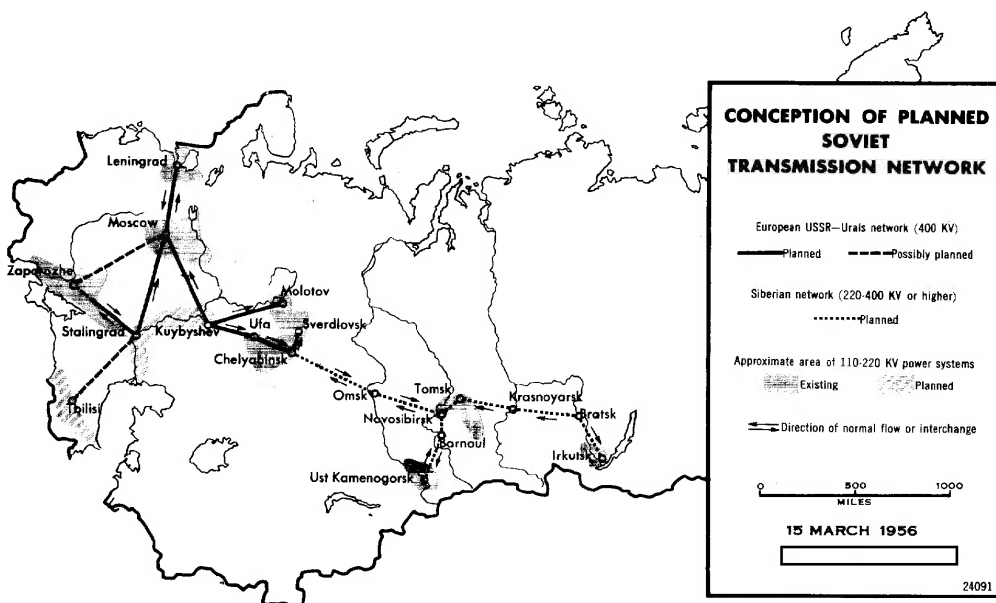
Advances in the technology of the electric power industry are planned by means of automation and the use of larger, more efficient turbines and generators. The installation of relatively small, inefficient turbines and generators in new power plants is the principal cause of underfulfillment of previous capacity goals, according to presidium member M. G. Pervukhin in his speech to the 20th Party Congress. The technology of the Soviet electric power industry is probably 5 to 10 years behind that of the United States. Elimination of such technological lags is an objective of the Sixth Five-

Year Plan. This objective will be only partly achieved in the electric power industry.

Transmission Network

Construction of a high-voltage transmission network to connect the Central, Southern, Volga, and Urals power systems is planned during the Sixth Five-Year Plan. This network will operate at 400 kilovolts, the highest transmission voltage in the world, and will link power plants having a total capacity of 28,000,000 kw. It will provide alternative sources and greater reliability in the electric power supply of vital industrial centers, and will allow a wide distribution of relatively low-cost hydroelectric power.

Work will also proceed on a Siberian high-voltage transmission network which will eventually be connected with the Urals, resulting in the interconnection of practically all of the major power systems of the USSR and the world's largest transmission system.



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By 1970-75, the Siberian transmission network is planned to connect hydroelectric and thermal plants having a total capacity of 50,000,000 kw and an annual production of 250 to 300 billion kwh, or about one and a half times the total Soviet power production in 1955.

Regional Trends

The Sixth Five-Year Plan emphasizes the acceleration of the development of the eastern USSR, which reportedly contains about 75 percent of the USSR's coal reserves and

80 percent of its hydroelectric potential. However, this development is a long-range effort and will not begin to show significant results until after 1960 when new power plants will come into operation.

East Siberia seems slated to have the fastest growth of installed generating capacity. Other areas in which electric power production is scheduled to increase sharply during the Sixth Five-Year Plan include the Kazakh SSR, and Tadzhik SSR, and the Volga region. Prepared by ORR)

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